



Natural Gas Expansion Testimony

Thank you Mr. Chairman and committee members. I am Wayne Kohley, President and owner of Excel Propane Co., and a past President of the Michigan Propane Gas Association. With me today is Dave Long, a fellow propane company owner and past president of the MPGA. My company, Excel Propane is a small business with 21 employees and has been in business since 1950.

For over 100 years, propane has been a consistent, reliable and affordable source of energy in Michigan and the rest of our country. During that time, propane has become a primary energy source to heat homes in rural areas. Then as now, propane companies service every county in Michigan.

Let me begin this morning by stating very clearly that the propane industry is pro-natural gas. Nearly all – if not all – propane that my customers and propane customers across Michigan use comes directly from natural gas production. The ongoing production of natural gas means an increased production of propane nationwide. These are terrific moves for Michigan and our nation for our collective energy security.

That said, House Bill #5555, the natural gas subsidization legislation before you seriously threatens the livelihood of my company and the jobs of my employees, along with hundreds of other propane companies in Michigan and their several thousand industry employees.

First and foremost, natural gas utilities in our state already have the ability to expand their natural gas lines to rural Michigan. In fact, the natural gas utilities are already expanding to areas where there are propane customers and the utilities have been doing so for quite some time. Like any business, if it is cost effective for them to expand, then they should do so. However, when it is not cost effective to do something, then it should not be done.

Again, those seeking natural gas already have the opportunity to do so. The Michigan Public Service Commission already has a program, the Customer Attachment Program, which allows potential customers who wish to attach to the utility system pay the cost of attaching to the system. The MPSC's Customer Attachment Program states; and I quote "Current customers do not subsidize the cost of adding new customers to their utility's system. New customers are charged for expansions based on costs to install the facilities that are offset by the revenue generated by the customers attached, figured over a 20-year period." End quote.



Unfortunately, House Bill #5555 would enable natural gas utilities to expand in areas where it is not cost effective by requiring **all their existing utility customers** to bear the expansion costs for the benefit of a few. The reason for this legislation is that, clearly, expanding natural gas lines to all parts of Michigan cannot be done effectively unless it is subsidized for the natural gas companies. Existing customers will receive **no benefits** from the addition of new customers, yet will be forced to pay for the subsidized expansions. As defined, the bill will allow natural gas companies to expand to any part of our state where there is no existing natural gas infrastructure. No restrictions, no limitations! In other words, **the nearly 80 percent of our state residents and businesses who are natural gas customers will pay to expand the natural gas lines to areas of our state where people chose to live outside of the natural gas infrastructure.** Needless to say, the Michigan Propane Gas Association absolutely opposes any and all subsidized expansion of natural gas.

The proposed subsidized expansion of natural gas lines will allow utilities to use the resources of its captive customer base to make below-market natural gas service available to new customers that already have competitive choices, and to compete unfairly with other sources of energy. It also results in the utility under-pricing the cost of providing service to new customers. If it economically makes sense for natural gas companies to expand, they should do it. If it does not make economic sense, then it should not be done. **Creating new fees, taxes or mandatory surcharges on existing customers' energy bills should not be the way to fund natural gas pipeline expansions. The Michigan Propane Gas Association has never come to the legislature and asked for legislation to help us expand our customer base. It's disappointing that the natural gas utilities with already almost 80% of all customers think that they should get special treatment to get more customers at the expense of Michigan's small businesses. We have always just asked for a fair playing field—not special treatment.**

There has been information supplied as to the annual savings for a consumer switching to natural gas from propane gas. The Natural Gas Subcommittee Report on Energy and Job Creation states that Michigan families would enjoy near \$2,400 of annual savings. And Consumers Energy testified that a typical single-family home uses 1,600 gallons of propane and would experience annual savings of \$2,700. I am here to tell you that those numbers are wrong! And I can tell you why they are wrong with information obtained from government sources. According to the Energy Information Administration (EIA), the average MI homeowner uses 770 gallons of propane per year. Not 1600 gallons as stated by Consumers Energy. As a propane marketer servicing almost 6000 Michigan residents I can attest to the accuracy of the 770 gallons per year. The Michigan Public Service Commission propane pricing report numbers shows propane has ranged between



\$2.00 and \$2.50 per gallon over the last 5 heating seasons. It is important to note that the MPSC survey only captures the market price of propane, and not the price protection prices, which most propane companies' offer and most customers participate in. I know at my company approximately 75% of my customers are price protected every year. Using the MPSC range of \$2.00 to \$2.50 per gallon equals a possible savings of \$860 to \$1245 when switching to natural gas. \$860 to \$1245 savings is not anywhere close to the \$2400 to \$2700 savings stated in the Natural Gas Subcommittee Report and by Consumers Energy.

Last Tuesday we heard a lot about how this will help low income families. The MPGA is always aware of the issues facing low income families, but we question how much the subsidized natural gas expansion will be a benefit. Comparing just the cost of energy does not address the infrastructure costs associated with natural gas hookup. Natural gas is cheaper than propane, but its infrastructure costs are substantially higher than those of the propane industry. Those hookup costs can range in the thousands if not tens of thousands of dollars. According to the American Gas Association's testimony a home a mile from a gas line can see pipeline costs of nearly a million dollars. How can someone justify spending a million dollars to provide natural gas to a home? Additionally, what about the new appliances or other costs associated with retrofitting the home? Those costs can be in the thousands of dollars. Finally, what about the low income natural gas customers who are going to see an increase in their utility bills to pay for this subsidization? This gets back to the basic point: this doesn't make economic sense, and if it did the utilities would already be doing it.

We also heard testimony by Consumers Energy that this legislation would create 150 permanent jobs. Not mentioned was the number of permanent jobs lost in the propane industry. If Consumers Energy connects to the 60,000-70,000 customers it estimated, there would be a loss of 240 jobs in the propane industry.

If these reasons are not enough to question support for this legislation, what about the Michigan residents and businesses that already made the expensive choice to bring natural gas to their homes and businesses? Why would any existing natural gas customer want to pay an additional tax, fee, or surcharge to subsidize natural gas expansion into an area where it doesn't make financial sense to do it? I doubt the 80% of Michigan residents using natural gas would agree to pay a fee to promote the expansion of natural gas into areas that did not make economic sense.

The natural gas expansion legislation is part of a three bill package. The other two bills include updates to clarify fines associated with unsafe practices for natural gas utilities. The other two bills require natural gas utility shareholders to pay for fines. However,



those same **natural gas utility shareholders will NOT pay for natural gas utility expansion investments.** In other words, this legislation is counter to the natural corporate concept by having the customer pay for corporate investments instead of the shareholders and business owners.

If utilities want to pay to build a pipeline to every propane customer in Michigan without a subsidy, we can live with that. That's how a free market operates. What we can't live with is investor owned utilities getting special treatment by being able to have their current customers pay for infrastructure projects the shareholders should be paying for.

Quite simply, the proposed legislation is subsidized, corporate welfare that will increase the utility bills of every business and individual family who is currently on natural gas at the expense of small businesses. The MPGA opposes this legislation and asks that you oppose this legislation. Michigan residents do not need any more taxes and fees on their energy bills; Michigan residents across the entire state should not be penalized and have to pay for corporations to expand their monopolistic practices in rural Michigan.

Thank you.

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And

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